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ECONOMIC INTELLIGENCE WEEKLY

Notes

Bolivia Encourages Foreign Oil Exploration

The contract recently awarded to Union Oil's Bolivian subsidiary to explore the Amazon basin is expected to lead to similar agreements with other companies, including Occidental Petroleum. Investor interest in the area has increased as a result of successive major discoveries in the Amazon regions of Colombia, Ecuador, and Peru The government has attempted to improve the investment climate by beginning to compensate Gulf Oil and other firms for earlier nationalizations and by allowing foreign companies to conclude operations contracts with the state oil company.

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Poland Seeks Advanced US Ship Technology

Poland would become the first Communist country to build lighter-aboard-ship (LASH) vessels under a pending licensing arrangement with a US firm. These high-speed vessels are designed to carry cargo-laden lighters that can be quickly dispatched to and from shore, permitting greatly reduced turnaround times. Introduced during the last three years, LASH vessels have been used on selected scheduled runs mostly between the United States and Western Europe. If Poland produces the ships, markets could be found in the USSR and the West.

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Czech Interest in Closer Economic Ties with the United States

Czechoslovakia is urging the United States to complete current consular negotiations and to move ahead with negotiations on postwar property and gold claims. Prague also has indicated it would like to break the pattern of acquiring US technology through West German subsidiaries, by dealing directly with US firms. Czechoslovak officials have stated that, for political reasons, they would rather not increase economic ties with West Germany.

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Articles

Soviets Boost Gold Production

Soviet gold production reached an estimated 255 tons last year and Moscow is acting to boost production further.

- Output in 1972 was 35 tons greater than in 1971.
- Most of the increase came from a huge new plant under construction at Muruntau in Central Asia.
- Total gold production should reach about 330 tons by 1975, when Muruntau reaches full capacity production of 90 tons annually.
- The reserves at Muruntau probably can support this rate of output through the end of the century at a cost of about $40 per ounce.

Construction of three other gold plants in Central Asia and Armenia is being pushed vigorously, and one plant may now be operational.

- Output from these plants probably will not add substantially to production until after 1975.

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During 1973-75 the Soviets could sell 750 tons of gold on the international free market without reducing the present size of their gold reserves of about 1,800 tons.

- Assuming a price range of $65 to $82 per ounce, this volume of sales would represent about $1.6 billion to $2 billion.

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International Monetary Developments

In the first three days of official trading on foreign exchange markets since 2 March, the dollar fluctuated in a narrow range against other major currencies. Only limited central bank intervention has taken place so far.

- Japan sold some $50 million on Monday to keep the dollar's value from rising too fast, as seasonal trade factors produced an increased dollar demand.

- With the mark the weakest currency in the European band this week, the Bundesbank has sold $10 million to $15 million in Belgian francs and a smaller amount of Swedish and Danish crowns to keep the mark within the band. The mark had been the most overbought currency during the recent crisis and has appreciated more than any European currency, except for the Swiss franc.

Several European nations have instituted new controls to discourage capital inflows.

- The Benelux countries, following the examples of West Germany and Switzerland, imposed interest charges on non-resident commercial bank deposits.

- France stopped payment of interest on non-resident deposits. It also prohibited commercial banks from increasing their net foreign exchange liabilities to non-residents and from debiting non-resident accounts for the purchase of French securities, and it imposed a 100% reserve requirement on new foreign deposits.

The generally light trading activity so far indicates that most traders are taking a wait-and-see attitude. The traders who speculated in marks and other strong currencies may well hold off repurchasing substantial quantities of dollars until they get a clearer picture of payments trends. Preliminary analysis of balance-of-payments prospects in Japan and Western Europe suggests that pressures will build for further appreciation of the yen and mark and a depreciation of sterling. 25X1

Middle East Dollars and the Currency Crises

Although Middle East currency flows are widely rumored to have been a major factor precipitating the recent foreign exchange crises, there is no hard evidence of massive dollar sales. Of the estimated $13 billion exchanged from late January to early March, official and private Middle East sales for gold and foreign exchange totaled no more than $1.5 billion, and probably were substantially less.

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There is little reason to suppose that any Middle East nation was intentionally seeking to weaken the dollar. Money managers in the Middle East, as elsewhere, do make some attempt to protect the value of their assets in a period of currency uncertainty. But they have, in fact, been slower than US multinational corporations, including the large oil companies, to desert the dollar. Consequently, their losses have been proportionately greater. The fact that reported Middle East sales of dollars have extended over several weeks and involved various countries belies the contention that sales were motivated by a desire to weaken the dollar or precipitate a monetary crisis.

There are indications that official and private Middle East dollar holders are preparing to pursue a more aggressive portfolio management policy which could cause problems for the dollar in the future. This, however, is a result rather than a cause of the February 1973 dollar devaluation and the dollar's continued weakness. US and European banks are aggressively soliciting Middle East business, arguing that they can more effectively manage and protect Middle East foreign exchange assets. Some Middle East interests already have hired Western specialists to this end. 25X1

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